



The GIF is supported by the Governments of Australia, Canada, People's Republic of China, Japan, Singapore, and the World Bank.

MEETING SUMMARY

The Global Infrastructure Facility (GIF) held its tenth bi-annual Advisory Council meeting in Washington, D.C. on October 16, 2019. The meeting had robust attendance with over 100 participants from around the world, including private sector financiers and investors from the GIF's Advisory Partner network, multilateral development banks, donor governments, including Australia, Canada, Japan, and Singapore, and other observers along with government representatives from Chile, Indonesia, Mexico and Uganda. The GIF's Advisory Council is co-chaired by Makhtar Diop, Vice President of Infrastructure at the World Bank and Jerome Jean Haegeli, Group Chief Economist of Swiss Re Institute.

The focus of this Advisory Council meeting was on "Sustainable Cities" and explored opportunities to increase private sector investment in low-carbon, climate-resilient infrastructure at the subnational level. Plenary sessions featured speakers from the public and private sector to discuss perspectives on topics such as Climate Action in Cities, Making Cities Investable, and Financing Infrastructure at the City-Level. Breakout sessions on Water, Wastewater, Waste-to-Energy and Urban Transport enabled participants to take a deep dive in the structuring and execution of bundling infrastructure projects and instruments to minimize the risks associated with infrastructure investments in these two sectors.

Opening Remarks

Fatouma Toure Ibrahima, Manager of Infrastructure Programs and Analytics at the World Bank, opened the event by welcoming the participants and presenting the GIF promotional video, highlighting GIF's contribution to sustainable infrastructure development across emerging markets and developing countries. She then introduced the first panel.

Makhtar Diop, Vice President of Infrastructure at the World Bank and Co-Chair of the GIF's Advisory Council delivered the opening remarks and highlighted the importance of cities, inclusiveness, and sustainability as key themes that are increasingly converging in the global infrastructure agenda. He stressed that the role of the GIF is more important than ever as we witness uncertainty in global economic growth. With this context, Mr. Diop explained how the GIF helps structure bankable projects that can make cities in emerging markets and developing economies (EMDEs) more sustainable and productive, and referred to examples such as Bus Rapid Transit (BRT) and waste-to-energy projects. Moreover, he mentioned that the GIF is brought up regularly in global discussions with the G20, G8 and its delegates, playing an essential role in attracting private sector investment, which in turn is a critical tool to reach the goals of sustainable cities.

Jerome Jean Haegeli, Group Chief Economist of Swiss Re Institute and Co-Chair of the GIF's Advisory Council reinforced Mr. Diop's message that the global economic outlook is fragile and presents several downside risks that are concerning for the infrastructure world. However, he pointed out that the GIF has a unique window of opportunity to catalyze private sector investment, since the private sector is looking for standardization and bankable projects. Additionally, the GIF has been supporting countries to make more infrastructure projects investable, as well as ESG compliant. He pointed out that only 2.5 percent of the balance sheet of long-term institutional investors is currently committed towards infrastructure and concluded by highlighting the importance of transforming infrastructure into a tradable asset class that will enable the private sector to invest more.

Thierry Déau, Founder and CEO of Meridiam discussed two main interconnected constraints that sustainable cities face. First, since many cities in emerging markets do not have access to credit, they often lack resources and technical and financial capacity. Secondly, this lack of creditworthiness can discourage lenders, particularly if there is no sovereign support. He argued that reducing carbon emissions in mass transit is a key challenge and encouraged cities to look for blended finance for solutions, for example through the greening of bus fleets in BRT projects. He concluded by stating that a key barrier for investment in urban infrastructure is the lack of resources for project preparation and the need for de-risking projects for institutional investors.

GIF Updates

Jason Lu, Head of the Global Infrastructure Facility presented a summary of the GIF's achievements to-date, highlighting that the GIF had approved 77 projects in 40 countries, committing US\$57.9 million of funding for infrastructure in emerging markets that could contribute to a total of US\$69 billion of expected investment.

Makhtar Diop, Vice President of Infrastructure at the World Bank and Co-Chair of the GIF's Advisory Council closed the session by stressing the importance of private sector investment to foster economic growth at a time of global slowdown. He pointed out that blending financing sources to reduce costs of accessing technology for climate change is not easy, but the GIF can help support this and cited the example of greening transport as the leading sector for investment.

Panel Session - Climate Action in Cities: Aligning Private Investment with the SDGs and Paris

Dr. Barbara Buchner, Executive Director of Climate Finance at Climate Policy Initiative (CPI) moderated the session which explored how city-level infrastructure is creating opportunities for subnational governments to promote alignment to the SDGs and NDCs under the Paris Agreement, and examined how the private sector is integrating such alignment into their investment decisions.

The panelists included:

- **Ariel Meyerstein, Senior Vice President of Corporate Sustainability at Citi**
- **Diana Alarcón González, Chief of Staff and Head of International Affairs in the Mexico City Government**
- **Lin O'Grady, Deputy Director of Sustainable Infrastructure Group at the European Bank for Reconstruction and Development (EBRD)**
- **Thierry Déau, Founder and CEO of Meridiam**

Key Takeaways

- Globally there are US\$6 trillion of potential economic benefits to reap from climate investment.
- Stakeholder engagement is critical and a key component of designing an action plan. All stakeholders must push to make the climate agenda thrive.
- Infrastructure needs of cities are great, but so are the opportunities, which need to be identified through better measurement models and tracking systems. Incorporating and tracking SDGs into investment decisions is critical to guide the conversation on cities' development.

- Prioritization of upstream work remains critical as this has the biggest impact from the point of view of investors.
- We need to help cities in emerging markets and developing economies to increase their capacity, and improve the transition towards sustainable investments, create bankable pipelines, and building partnerships to share knowledge and bring capital to cities.

Summary

70 percent of global infrastructure needs will be located in cities and figures from the Climate Policy Initiative (CPI) show that from 2017-18 investment in cities passed the half trillion mark for the first time. While private sector involvement is increasing, the panelists noted that investment is still falling short of the real needs, arguing that globally there are US\$6 trillion of potential economic benefits to reap from climate investment. The panelists also indicated that the public sector is still the key engine in the infrastructure sector, but public finance is scarce and must be used in the most efficient way. Ms. Buchner spoke of CPI's two main goals: to make cities a priority and to be a bridge between supply and demand by linking governments, cities, development banks and the private sector. CPI adds value in this context by helping cities navigate available investment and facilities.

The corporate sustainability program of Citi was also discussed, with its heavy focus on SDG 11 (on cities). Citi invested US\$7.7 billion in the transport sector and US\$18 billion in municipal finance, citing a recent US\$3 billion deal with the Detroit water authority as examples of infrastructure investment at the city level. The EBRD presented its Green Cities Program that includes a green city action plan as a tool for cities, which identifies green and sustainable investment targets with the aim of investing in transformational projects that are pushing the boundaries. Ms. O'Grady discussed examples in the wastewater treatment sector with new elements of resilience in Skopje, Macedonia, as well as Tbilisi's green city action plan in Georgia which includes the training of female bus drivers. The panelists stressed that stakeholder engagement is critical and a key component of designing an action plan and concluded by encouraging all stakeholders to be "pushy" to make the climate agenda thrive.

Mexico City's "inclusive, innovative and sustainability" program was also highlighted, designed to address the city's massive infrastructure challenges, while also promoting economic growth, inclusion and environmental sustainability. The administration has increased investment in green infrastructure to a historically high level. As a result, they now have a 7-point environmental and climate change program (2019-2024), which includes waste management and water reuse, sustainable mobility system and renewable energy. The water and wastewater use management is a critical issue for the city and there will be several opportunities to partner with the private sector for solutions. Ms. Alarcón González concluded by stressing the importance of responding to city challenges as a starting point and opportunity to increase investment.

The incorporation of SDGs into investment strategies was also discussed: Citi does this in a systematic way and Merdiam focuses on 4 of the 17 SDGs as criteria for impact measurement for their investment funds, arguing that the selected SDGs allow for tracking of direct impact of investments. Mr. Déau explained that impact varies as projects contribute to different SDGs and stressed that while Merdiam developed a model to report on SDGs on a quarterly basis, large institutions will likely need to utilize artificial intelligence to comprehensively report on an extensive number of SDGs. The panelists agreed that

expanding the reporting beyond the six categories that are purely environmental could be complicated and burdensome in terms of reporting.

It was agreed that the prioritization of upstream work remains critical as this has the biggest impact from the point of view of investors. In this regard, the panelists said that GIF plays a critical role in tackling this investment bottleneck, confirming that blending finance is also an important piece to transition from small projects to scale. They also highlighted the importance of knowledge sharing and the need to explore ways to innovate and keep the pipeline of projects robust.

Panel Session - Making Cities Investable

Richard Abadie, Partner of Capital Projects & Infrastructure Group at PwC, moderated this panel that explored the challenges and opportunities cities face in attracting private-sector investment in infrastructure.

The panelists included:

- **Alejandro Arriagada, Legal Director at the Ministry of Transportation and Telecommunications in Chile and Head of Legal, Metropolitan Public Transport Department**
- **Alzbeta Klein, Director and Global Head of Climate Business at the International Finance Corporation (IFC)**
- **Karby Leggett, Global Head of Public Sector and Development Organizations at Standard Chartered Bank**
- **Triharyo Soesilo (Hengki), Director for Energy Sector of the Committee for Acceleration of Priority Infrastructure Delivery (KPPIP) at the Coordinating Ministry for Economic Affairs in Indonesia**

Key Takeaways

- Investment need for cities in EMDEs will soon reach US\$1.3 trillion. With only 0.6% of total investment in EMDEs coming from long-term private investors, the public sector will continue to remain the biggest source of funding since investors still lack the risk appetite to invest in EMDEs.
- To attract investment, cities need to have a future vision, the ability to develop clear pipelines and prioritize projects, and find financing solutions through blended finance.
- Multilaterals and donors are essential to contribute to solutions where the private sector can participate.
- Project preparation remains essential to turn infrastructure into an asset class in order for long-term investors to come in.

Summary

Cities consume a large part of global resources and the investment need for cities in emerging markets and developing economies will soon reach US\$1.3 trillion. A large share of infrastructure still needs to be financed through public funding since investors lack the risk appetite to invest in emerging economies. Only 0.6 percent of total investment in emerging markets comes from long-term investors which represents an incredible opportunity for cities. Mr. Abadie stressed that a clear articulation of risks is critical for investment in cities and discussed four pillars needed to attract private investment: i) fiscal; ii) institutional; iii) investment and credit; and iv) regulation, legal and policy; and highlighted creditworthiness and risk allocation represent additional key challenges. Risk appetite for investment is

not the main issue, but it is rather the need for clear articulation of risk in the cities including clarity of pipeline, strong plans, and future vision.

Some cities are risk-takers in the field of new technologies, and this is the case of Chile's capital, Santiago, which boasts the biggest electrical fleet outside of China (400 buses). Chile's long-standing tradition of the rule of law, along with state and government guarantees helps to attract private investment. Mr. Arriagada mentioned that sovereign risk is a key topic of conversation with investors in Chile, and that other critical issues include transferring the contract to third parties and insurance over assets. The panelists reemphasized that four key aspects are critical for making cities investable: (1) financial status; (2) governance; (3) projects/pipeline and how they are prioritized; and (4) communication and information sharing.

A GIF-supported waste management project in Jakarta was highlighted as a successful example to attract private capital to city projects. With the city's population of 10 million, Jakarta will need US\$1 billion of investment for waste management. Mr. Soesilo stressed that international commitment is key to attract private investment and pointed out three key features that made the project successful: (1) central government commitment on viability gap funds and guarantees; (2) local government commitment with the supply of water and land; and (3) International commitment from MDBs, which provided the credibility of the project vis-à-vis the international community.

The speakers discussed a 'triangle' of issues to solve, which includes (1) investment opportunities; (2) availability of private savings; and (3) cities, which will not be able to fund the infrastructure they need. Cities should contribute to investment opportunities and availability of savings coming together. Some examples of cities that are attracting investments were highlighted, including a PPP for city lighting in Bhubaneswar, India, which succeeded because of clear rules of the game, and Buenos Aires that, although not seemingly attractive, had the ability to prioritize projects and find financial solutions through blended finance. The speakers stressed that blended finance is about stacking financing and allocating the risks to whom can manage it best, outlining an MDB funding example to address certain risks such as local currency financing. At the same time, the speakers called for the audience to not underestimate the importance of project preparation and urged the participants to work to turn infrastructure into an asset class for long-term investors to come in.

Panel Session - Financing Infrastructure at the City-Level

Andrew Davison, Senior Vice President of Infrastructure Finance Group at Moody's, moderated this panel that discussed a range of structuring approaches, including PPPs, bundling/aggregation, and combining different financial products to facilitate infrastructure investment at the city-level.

The panelists included:

- **Adam Sherman, Managing Director and Group Head at SMBC**
- **Jerome Jean Haegeli, Group Chief Economist at Swiss Re Institute**
- **Maureen Harrington, Head, Client Coverage of Financial Institutions at Standard Bank**
- **Patrick Musoke, Deputy Director for Strategy Management and Business Development in Kampala, Uganda**
- **Yoji Morishita, Head of the Office of Public-Private Partnerships at the Asian Development Bank (ADB)**

Key Takeaways

- Creditworthiness remains a major obstacle for municipalities in attracting private capital, especially in Africa. Commercial banks could work with cities and the donor community to build partnerships and provide training and support to help cities become credit worthy.
- It is important to transform infrastructure as an asset class. The investment gap in city infrastructure cannot be bridged without bringing in long-term investors.
- Climate change risk is transforming into a systemic risk for investors. Incorporating SDGs into investments should be a must, rather than a luxury. Advancing a comprehensive and universal definition of sustainable infrastructure investment is critical.
- Key areas for development to bridge cities' investment gap include the tradability of infrastructure, progress on standardization of contract terms, and developers becoming involved in designing projects at the municipal level.

Summary

The discussion kicked off with the panelists sharing their views on infrastructure financing, both in general and at the local level. The US municipal financing market was highlighted as an example of efficiency, issuing US\$3 trillion per year of debt. Its success rests on the use of techniques such as sovereign mechanisms, debt reserve, and bond banks. The panelists said that the market adapts to cities that are not creditworthy, pointing to a renaissance of city infrastructure in the US and Canada and quoting examples from several projects such as Phoenix streetlighting in Arizona, LA airport shuttle in California, Denver airport in Colorado, and Chicago parking lots in Illinois.

The discussion shifted to municipalities in Africa, where 9 times out of 10 lending requires sovereign backing to guarantee the off-taker. The panelists argued that while it might not seem ideal for commercial banks to finance a non-credit worthy city, they could still work with cities to build partnerships and work with the donor community. Furthermore, they could also provide training and support to help a city become credit worthy and Ms. Harrington urged everyone to work towards building more of these partnerships with cities. The need for Africa to re-organize itself fast in order to secure financing was discussed. Mr. Musoke stressed that Africa lacks the capacity and has extensive needs, but that there is no other path other than working on the credit worthiness of municipalities. City leaders needs to take this decision up front, building on the tradability of infrastructure.

The speakers stressed the need to transform infrastructure into an asset class. The US\$1 trillion investment gap in city infrastructure cannot be bridged or narrowed without bringing in the private sector and consequently the long-term investors community. Touching on the topic of risks, Mr. Haegeli said that standardization is key to tackle the issue of investors rights, and that standardization can apply to several aspects from data transparency, to best practices for PPP contracts and financial documentation. The speakers also touched upon the importance of climate change risk, which is transforming into a systemic risk for investors, and argued that incorporating SDGs into investments should be a must, rather than a luxury. This is especially the case in Asian cities, where it was argued that central governments should pay a key role particularly in tipping fee and environmental safeguards. The panelists pushed for advancing a comprehensive and universal definition of what sustainable infrastructure investment is.

Mr. Davison concluded the session by asking panelists what market development they would like to see in this field. The panelists highlighted the tradability of infrastructure, progress on standardization of contract terms, and developers becoming involved in designing projects at the municipal level.

Breakout Sessions: Urban Transport and Water

Breakout Session: Urban Transport

Rob Pilkington, Infrastructure Specialist at the GIF, and **João Reye Sabino, Investment Officer at IFC** moderated the session which was a deep dive into the structuring and execution of bundling infrastructure projects and the role of insurance-based products to minimize the risks associated with infrastructure investments at the city-level with a focus on the transport sector.

The speakers included:

- **Gaston Astesiano, Public-Private Partnerships Team Leader at the Inter-American Development Bank (IDB)**
- **Christopher Leslie, Senior Managing Director and Executive Chairman at Macquarie Infrastructure & Real Assets (MIRA) Americas**
- **Felipe Targa, Senior Urban Transport Specialist at the World Bank**

Summary

The session started with a brief presentation of MIRA's Goethals Bridge project, which links Staten Island to New Jersey in the USA. It was highlighted that the port authority conducted procurement by transferring a few risks to the private sector, while retaining control of the tolls. Ten percent equity forced the construction community to price their equity wisely, which allowed Macquarie to succeed. Another structuring example was also highlighted in Brazil, specifically a bus terminal PPP in Sao Paulo. Areas around the terminals are generally unsafe which discourages people to use it. The IDB decided to concession the terminals, including for commercial use. The market sounding provided the idea for the development of a guarantee and escrow account, with public bank Caixa as the financial agent. A representative of JP Morgan asked about the financing model for the project, in which Mr. Astesiano responded that the market sounding provided positive responses from the private sector, even though such models were generally not well received in India or Thailand. The speakers discussed the importance of Transit Oriented Development (TOD) and Land-Value Capture for the development of these projects for public transportation.

Breakout Session: Water, Wastewater, waste-to-energy

Michael Kane, Senior Infrastructure Specialist at the GIF, and **Zanele Hlatshwayo, Infrastructure Specialist at the GIF**, moderated the deep dive into the structuring and execution of bundling infrastructure projects and the role of insurance-based products to minimize the risks associated with infrastructure investments at the city-level with a focus on waste to energy and water.

The speakers included:

- **Adele Paris, Investment Officer at IFC**
- **Yoji Morishita, Head of the Office of Public-Private Partnerships at the ADB**

- **Sayda Rodríguez Gómez, Secretary of Sustainable Development in the Yucatán State Government in Mexico**
- **Neil Diamond, Former City Manager of the City of Mbombela in South Africa**
- **Peter Ellis, Global Lead for Sustainable City Infrastructure and Services at the World Bank**

Summary

The discussion started with highlighting various efforts to create an environment attractive to lenders and to make lending viable for the public sector. This focuses on the importance of project preparation, to not only making projects bankable but also technically sound, thus providing frameworks for projects to function in the long term. Examples were provided about waste management projects in Belgrade, Serbia, where IFC supported a private partner build new management system site in line with EU standards with a financing structure that brought together IFC, EBRD, and concessional finance from both; and about the state of Yucatán, in Mexico, where the state government is trying to bring together mayors to tackle the issue of the 1,000+ illegal dumps spread across the state. The discussion also looked into regional perspectives with examples from Asia and Africa. In Asia, the region is struggling to reach commercial close since national governments do not usually include municipalities in their waste-to-energy plans, when they should instead provide municipal governments with a sound regulatory framework. In Africa, one of the challenges is the lack of city officials' legal and technical capacity to negotiate PPPs. It was suggested that one good practice to address this issue was a recent investment from the Danish government to train city officials. With this, the city of Mbombela in South Africa was able to unlock US\$40 million in investment. In addition to the issue of capacity, second tier cities are also faced with low credit ratings, therefore requiring support from development finance institutions on project preparation. MDBs should continue to support cities through the development of master plans, capacity building, risk management of scope of work, and monitoring projects once private companies start construction.

Partner's Showcase

GIF's Technical Partners, IFC and IDB, showcased two innovative initiatives in the cities space. The session highlighted IFC's "Breathe Better Bond" and IDB's "Green Bond Program for Cities."

Steve Baillie, Principal Financial Officer in Climate Business at IFC, presented the "Breathe Better Bond" initiative with cities to reduce air pollution (greenhouse effect gases), stating that 97 percent of urban population in emerging markets is exposed to bad air quality. He showed the huge economic impact since cities' GDP decreases due to air pollution. The bond tackles both the financial barrier (since it helps the city raise funding) and the technical barrier (which helps the city select the appropriate projects).

María Tapia Bonilla, Lead Climate Change Specialist at IDB, presented IDB's work with Green Bonds for sustainable cities and infrastructure. According to Ms. Bonilla, investors like volume and would like to see several projects instead of individual ones. IDB is working on the definition of sustainable infrastructure, as well as working at the country level to help clients incorporate elements of sustainability in cities' upstream project planning. She argued that if this happened, cities would be able to deliver on the SDGs and also minimize project and credit risk.

Closing Remarks

Jerome Jean Haegeli, Group Chief Economist of Swiss Re Institute, closed the meeting by summarizing the key takeaways from a day full of rich discussions. He stressed the need to focus on cities, which is

where the challenges and opportunities are the greatest as is the need for bankable projects. To achieve this, more standardization and more sustainability in projects are critical. This may make projects more complex upfront, but in the longer term, it is more rewarding.

Jason Lu, Head of the Global Infrastructure Facility, thanked GIF donors which include Australia, Canada, China, Japan, Singapore and the World Bank, for their support. He highlighted the importance of project preparation and capacity building, which is where the GIF comes into play. While project structuring and project preparation takes time and money, the GIF can take this risk and fill this gap in the market. The GIF plays a unique role as the connective tissue among private sector partners and governments to build pipelines of bankable and sustainable infrastructure in emerging markets and developing economies.

For more information please contact:

managementunit@globalinfrafacility.org